

SEBI'S 50% OVERLAP CAP AIMS TO CURB DUPLICATION IN MF SCHEMES

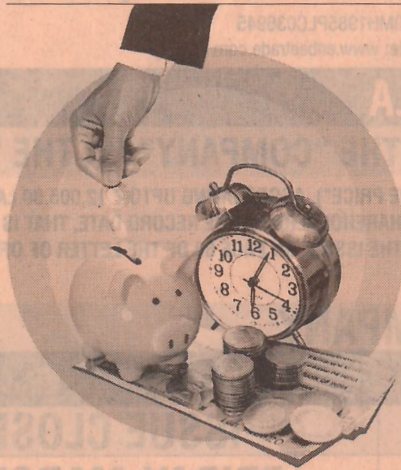
Under 2% schemes show excess overlap

● ESG and business cycle funds see highest duplication

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THE SECURITIES AND Exchange Board of India's (Sebi) decision to introduce a mandatory 50% portfolio overlap ceiling to reduce duplication across mutual fund schemes, specifically for thematic/sectoral funds and other equity categories, will impact less than 2% of the top 10 fund houses' mutual fund schemes, according to an analysis by PrimeDatabase.

In total, 34 of 2,066 combinations of sectoral and thematic funds with equity schemes have over 50% portfolio overlap between their sectoral and thematic schemes and other equity schemes. In fact, the overlap occurs in only five out of 10 fund houses: SBI MF, ICICI Prudential MF, Kotak Mahindra MF, Axis MF and



Aditya Birla Sun Life MF.

Among themes, business cycle funds and ESG-themed funds have seen the highest excess portfolio overlap, with 21 out of these 34 instances involving at least one of the two themes.

Over half, or 16 out of these 34 instances, are in schemes of ICICI Prudential Mutual Fund,

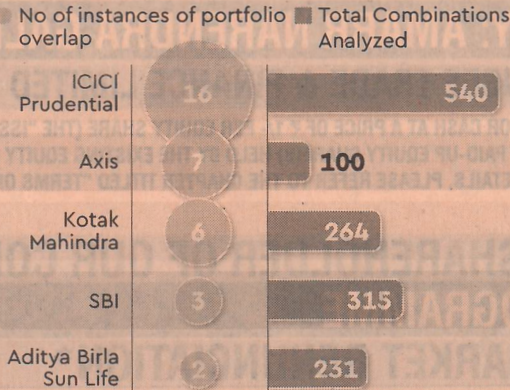
while Axis Mutual Fund has recorded seven, and Kotak Mahindra Mutual Fund has recorded six instances of excess portfolio overlap. Fund houses have been given three years to comply with this regulation.

Dhirendra Kumar, CEO of Value Research, believes that the high incidence of portfolio overlap between business cycle

and ESG funds reveals a lack of value for investors.

"ESG and business cycle are the loosest themes in the mutual fund universe. With a banking fund or a pharma fund, at least you know where the boundary is. ESG is all about declarations and certifications; the ratings don't even correlate across agencies," he said.

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He explained that the business cycle theme is so broad that it can justify holding anything at any point. Both these funds end up buying the same stocks like Infosys, HDFC Bank and Reliance that any flexi-cap fund holds. The label is different, the portfolio is the same. The data showing high overlap is proof that these were marketing themes, not investment strategies.

"If these funds are forced to reduce overlap, they either become genuinely concentrated, which means higher risk that most investors didn't sign up for, or they merge into existing schemes, which is an admission the product never had a reason to exist," he added.

A. Balasubramaniam, MD and CEO, Aditya Birla Sun Life AMC, explained that ESG funds are bound to have an overlap with large-cap funds due to their focus on high ESG scores observed in these companies. However, he admitted that business cycle funds will

need a relook following these new regulations and develop models to reduce instances of high portfolio overlap with other equity schemes.

Madhu Nair, CEO, Union Mutual Fund, said that the high overlap of business cycle funds with a large-cap fund or a mid-cap fund could be due to the fact that it is a diversified fund, which can resemble a large-cap or mid-cap scheme based on market conditions. He added that the glided path to realign portfolios will make it easier for fund managers to reduce portfolio overlap.

Kumar added that the real lesson is that most investors don't need these products. A good diversified equity fund is a superset of all these stories. The fund manager will emphasise the right sectors at the right time without going overboard. Every thematic NFO is ultimately an exercise in artificial demand creation, hyping up some sector and selling a product the customer doesn't need.